Meeting: 3/19/14
Agenda Item No. 12

City of Santa Barbara
Airport Department

Memorandum

DATE:	March 19, 2014
TO:	Airport Commission
FROM:	Hazel Johns, Acting Airport Director HJ
SUBJECT:	Proposed Operating Budget for FY 2015

RECOMMENDATION: That Airport Commission recommend approval of the proposed Fiscal Year 2015 Operating Budget for the Airport.

Significant Issues Affecting Development of the Budget

On February 24, 2014, American Eagle notified Airport staff that effective April 1, 2014. it will no longer offer service to Los Angeles from Santa Barbara due to restructuring of their routes nationwide. American will continue to offer service through their merger partner, US Airways, via the Phoenix hub. However, without new capacity/flights, the five flights a day to Phoenix on US Airways cannot accommodate the 57,162 enplaned passengers (CY 2013) from American Eagle.

American Eagle currently operates four 50-seat flights per day to Los Angeles, representing approximately 13.66% of total passengers in FY 2014 through January 31, 2014. A significant drop in enplanements impacts all revenue lines of business at the airline terminal, parking, rental cars, restaurant, and gift shop. Additionally, the collection of Passenger Facility Charge fees will be impacted; as well as, the "entitlement" amount of the Airport Improvement Program grant.

Budget Balancing Strategy

To balance the budget, the Airport reviewed all expenditures and made reductions where possible however, with utility costs rising and maintenance contracts for various electronic systems and building needs, it was difficult to substantially reduce the operational expenses. The following assumptions were used in preparing the FY 2015 budget: passenger traffic to decrease 13%; airline terminal concession revenue to decrease 13%; general aviation activity to remain stable; and commercial/industrial revenue to remain stable. These assumptions are in comparison to FY 2014 projections. Costs of operation for the new terminal are based on 30 months experience.

One cost savings recommendation was to close Long Term parking Lot 2, and relocate the employees and all travelers to Long Term Lot 1. This will result in major decreases in the parking management contract. Long Term Lot 1 has sufficient capacity to accommodate the employee parkers and Lot 2 travelers. Lot 2 will continue to be available for use during the peak holiday season.

Additionally, new revenue sources will be implemented: adjustment of the fuel flowage fee for Jet A fuel and a new fuel flowage fee for airline fuel sold.

Narrative Analysis of Revenues:

As an Enterprise Fund, the Airport's budget has been prepared based on forecasted revenues from tenant rentals and user fees.

Revenue assumptions for FY 2014 projections and explanation of material budget variances:

- Commercial and industrial revenue target is expected to have a slight -1% decrease under budget, due primarily to vacancies at two properties, which have resulted in a monthly loss of revenue of $24,715.
- Non-Commercial Aviation (general aviation) revenues were artificially increased at the end of the FY 2014 budget period due to unanticipated increases from the Budget office. With that in mind, it is expected that this line of business will be -8.7% below target. There is a vacant facility in the Air Operations Area and a new lease is being developed. Increased general aviation operations are projected to increase landing fees and fuel flowage fees.
- Airline Terminal revenues will be affected with the loss of American Eagle service during the fourth quarter so restaurant and gift shop revenues are projected to be significantly under budget. Parking revenues are projected to be below projections due to a decline in passengers from American Eagle. Closure of Long Term Parking Lot #2 is not expected to have any major impact to parking revenues. Rental car revenue is based on a "minimum annual guarantee" from the rental car companies and is trailing budget and it is expected that this line item will be under budget.
- Overall Commercial Aviation revenues will be slightly above target at 2.6% due to airline negotiated rates and charges and actual usage. Landing fees from the airlines will exceed target by 7% and building rental from the airlines will be approximately 1% above target. The effect of the American Eagle pullout on building rental will be a modest loss at $110,445 for FY 2014 because American Eagle provides baggage handling services to most of the other carriers at the Airport, a necessary service that will continue to be provided. Boarding bridge revenue is down -19.8% due to maintenance issues and the pullout of American Eagle, who is a heavy user of the boarding bridges.
- Overall FY 2014 revenues are projected to be 2% below target.

Revenue assumptions for FY 2015 reflect the second full year of occupancy in the new Airline Terminal building providing good comparable data.

- Commercial and industrial revenues are projected to increase slightly 2% in FY 2015 allowing for minor CPI adjustments, some turnover, and rental of one of the two large properties that is currently vacant.
- Non-Commercial Aviation overall revenue is projected to increase 5.1% over FY 2014 actuals based on a 2% increase in building rentals, an increase in the general aviation landing fee rate from the current level of $3.46 to $3.52 per 1000 pounds, and an increase in fuel flowage fees from $.05 to $.08 per gallon for Jet A fuel.
- Terminal revenues are dependent upon enplaned passenger levels. With the withdrawal of American Eagle all Terminal lines of business have been adjusted downward to account for the potential loss of 13% of the passenger traffic.

- Commercial Aviation revenues for airline building space and landing fees are projected to increase 2-3% based on adjustment of annual building rental rate and landing fees. The boarding bridge fee will also increase due to fewer users. Staff met with airline representatives on Monday, March 10, 2014, to discuss rate and fee adjustments; the agreed upon adjustments are in line with revenue estimates.

Changes in fees with related revenue impacts:

The long-term parking fee for Lot 2 is being adjusted from $9 to $10 per day. This adjustment will have a minimal impact on revenues however, it will keep the Airport's parking lot fees consistent with competing airports. The fee resolution has been changed and submitted as required.

New revenue line items

The Airport charges a fuel flowage fee for all aviation fuel sold by the two Fixed Base Operators, Signature Flight Support and Atlantic Aviation. The fee was set at five cents a gallon when it was implemented and has never been adjusted. Staff is recommending that the fuel flowage fee for Avgas remain at five cents and the fee for Jet A fuel be increased to eight cents per gallon sold. Additionally, a new fuel flowage fee of four cents per gallon for fuel sold to the airlines. Based on these adjustments approximately $187,000 in new revenue is budgeted.

Narrative Analysis of Expenditures

Expenditure assumptions for FY 2015 projections and explanation of material budget variances in FY 2014:

- Salaries and Benefits have been adjusted to reflect the reorganization of the Security and Certification/Operations programs, and the addition of an Administrative Analyst to Administration program. The Security Program continues to have overages in overtime as one of the Patrol officers is in training and the two other positions recently filled an in on-site training.
- Total Materials & Supplies will be slightly under budget due to actual expenditures. Utility costs are tracking above average and both Goleta Water District and Southern California Edison have major rate increases scheduled. The ARFF adjustments have been made reflecting the increases. All other line items for FY 2015 have been carefully evaluated and adjustments made to balance.
- Special Projects which primarily includes the parking shuttle operation have been reduced to provide for peak holiday traffic if needed. Budget adjustments have been made for the increase in Living Wage.
- Airport Capital reserve funds will be requested to cover any new capital projects with adjustments made during third-quarter.
- Total Expense including Capital transfers for FY 2014 is projected to be under budget.

Expenditures assumptions for FY 2015

Projected expenditures for FY 2015 have been adjusted for salaries and benefits; ARFF, and slightly for materials and supplies including anticipated utility rate adjustments.

Narrative Analysis of Programmatic Changes

Significant changes in P3 objectives by program. No significant changes are planned for FY 2015.

Special projects and/or new initiatives contained in budget – No special projects are planned for FY 2015.

Service Reductions or Enhancements – For the last quarter of FY 2014 and all of FY 2015, the Airport plans to close Long Term Parking Lot #2 and discontinue shuttle service to the lot, with the exception of the peak holiday travel season from Thanksgiving to the New Year and any other times as needed. Most of the current users of Long Term Lot #2 are terminal employees, who will be shifted to Long Term Lot #1. Based upon average daily usage of both long term lots and the closure of Long Term Lot #2, there is projected to be excess capacity averaging approximately 200 spaces per day of 700 available spaces in Long Term Lot #1.

Significant reallocation of resources between programs – No significant reallocation of resources between programs for FY 2015.

Other Discussion Items:

Proposed capital projects contained in budget – During the mid-year FY 2014 budget cycle, the Airport requested reprogramming of the capital budget, including appropriation of $838,072 to reserves in Fund 5710. During the third quarter adjustments will be requested for the Airport's match for the FAA Airport Improvement Program (AIP) grant and adjustments to existing capital maintenance accounts.

4. Fee Resolution:

The FY 2015 budget includes an increase to the daily maximum fee in Long Term Lot #2 from $9.00 to $10.00. This is based upon a survey of comparable California airports, in which the median Long Term daily maximum rate was $12.00. Additionally, staff met with the Airport parking operator, who concurred that an increase in the rate could be borne by the market. The increased fee will only effectively apply during the Thanksgiving to New Year time period, as Long Term Lot #2 will be closed during the remaining portion of the year. An updated fee resolution document has been provided to Finance staff as required.

5. Supplemental Items:

# of Staffing Hours for proposed Hourly Salaries:

- Security – 7431 - $163,000
- 14 Airport Traffic Aides – 956 each at $12.25/hour

The cost for hourly employees will supplement the additional full-time employees proposed for FY 2015 and are needed to staff the checkpoint exit lane and provide traffic control at the curb at the Airline Terminal building. The Airport is responsible for covering the doorway for exiting passengers which is located by the security screening area. This exit needs to be covered during the period that TSA is conducting passenger screening operations, approximately 16 hours per day. Additionally, the Airport will contract with a third-party security service for $13,000 to provide supplemental services as needed.

Staff has looked at several options, including the use of technology, as an alternative to staffing the exit lane. However, the best way to avoid a security breach is to have a person at the exit lane to ensure that unauthorized persons do not enter the sterile area. Unauthorized entry into the sterile area (holding rooms) could result in the need to evacuate all passengers, search the sterile area for prohibited items, and re-screen all the evacuated passengers. Unless a technology solution is found, the need for these positions will be on-going.

- Custodial Maintenance – 7422 - $40,000
  4 Custodians – 581 hours each at $17.21

Hourly staff is needed to provide on-going custodial services for the Airline Terminal when permanent staff is unavailable due to vacancies, illness, vacation, or personal leave.